

Annual Report on



Cost Containment
Fiscal Year 2004

STATE OFFICE *of* RISK MANAGEMENT

OCTOBER 15, 2004

Introduction

The State Office of Risk Management (Office) administers the workers' compensation program for state employees and the state risk management program for client agencies. Under the authority of Chapters 412 and 501 of the Texas Labor Code, the Office's mission is to provide active leadership to enable State of Texas agencies to protect their employees, the general public, and the state's physical and financial assets by reducing and controlling risk in the most efficient and cost-effective manner.

House Bill 1, 78th Legislature, Regular Session requires the Office to submit an annual report detailing the effectiveness of cost containment measures undertaken during the fiscal year and proposing additional measures to reduce workers' compensation payments in future years. This document is the report on cost containment for fiscal year 2004.

Summary of Cost Containment Savings: Fiscal Year 2004

During fiscal year 2004, cash basis claim expenditures totaled \$56 million, of which medical expenditures accounted for \$32 million. The Office's cost containment measures in fiscal year 2004 resulted in savings of more than \$76 million for the workers' compensation claims fund and Texas taxpayers. A breakdown by amount for fiscal years 2002 through 2004 is provided below.

SUMMARY OF COST CONTAINMENT SAVINGS

<u>STRATEGY</u>	<u>2002 SAVINGS</u>	<u>2003 SAVINGS</u>	<u>2004 SAVINGS</u>
Total Medical Bill Audit Savings	60,261,042	68,554,645	91,976,556
Duplicate Bill Savings	(17,670,569)	(19,277,164)	(17,975,621)
Net Medical Bill Audit Savings	42,590,473	49,277,481	74,000,935
PPO Savings	491,142	325,248	237,504
Pre-Authorization of Medical Services	1,434,625*	2,083,739*	1,108,279*
Subrogation Recovery	<u>252,689</u>	<u>917,175</u>	<u>1,197,775</u>
TOTAL COST CONTAINMENT SAVINGS	\$44,768,929	\$52,603,643	\$76,544,493

* Cost of procedures not performed at time of request, as estimated by the cost containment vendor. (See explanation in "Pre-Authorization of Medical Services" text below)

PROPOSED ADDITIONAL MEASURES

- Fiscal year 2004 was the last year of the Office's contact with the cost containment vendor, Argus Services. Beginning in fiscal year 2005, cost containment vendor services are provided by CorVel Corp. and Forté, Inc. The new vendors will emphasize additional automated processes and enhanced involvement of medical professionals. The current contracts allow for the utilization of optional services, including but not limited to Physician Bill Review, Hospital Bill Review, online adjuster payment approvals, etc., which will be evaluated for cost-effectiveness in the cost containment process.

- Additional Requests for Proposals (RFPs) related to cost containment services are being actively considered by the Office, including Ancillary Medical Services, Vocational Rehabilitation, Medical Director Services, Pharmacy Benefits Management, and Fraud Detection Systems.
- With respect to network healthcare, the Office's existing RFP for a Healthcare Network for injured state workers is currently being revised for publication. This RFP was held in abeyance during the evaluation of a statewide network pilot by the Healthcare Network Advisory Committee (HNAC) at the Texas Workers' Compensation Commission. The HNAC is not pursuing a statewide network pilot at this time.
- The Office has requested additional staff and funding to attract and retain an adequate number of qualified staff to evaluate and monitor claims.

FISCAL YEAR 2004 COST CONTAINMENT STRATEGIES

The Office pursues all available cost containment measures at its disposal to meet the Office's fiduciary responsibilities to the taxpayers of Texas while ensuring workers' compensation benefits are fairly paid to injured state employees. The Office continues to refine its current cost containment strategies and to seek new strategies that can reasonably assist in containing the costs of workers' compensation. The following discussion summarizes the cost containment strategies utilized by the Office during fiscal year 2004.

Medical Bill Audit

The Texas Workers' Compensation Commission (TWCC), as the regulatory authority over the workers' compensation system in Texas, requires health care providers to submit bills for medical procedures and services based upon the "usual and customary fees" normally charged by the health care provider. However, TWCC adopts "fee schedules" for health care services which provide maximum allowable fees for services under the workers' compensation system. Insurance carriers are required under the Texas Workers' Compensation Act (Act) and TWCC adopted rules (Rules) to audit bills submitted by health carriers to reduce billed amounts to the maximum allowable rates under the appropriate fee schedule. The difference between usual and customary charges of the health care provider and the maximum allowable rate under the fee schedule are savings to the carrier and employer. In addition to auditing to fee guideline, bills are also reviewed for medical necessity and relatedness to the compensable injury. Charges reduced as a result of such reviews also represent savings over billed charges. In the case of the State's self-insured workers' compensation program administered by the Office, these savings accrue to the benefit of the state's taxpayers.

The Office's medical cost containment vendor audited 206,767 medical bills during fiscal year 2004. The Office further augments the medical cost containment vendor's services with its own medical bill quality control staff, including reviewing audited bills and identifying errors requiring re-audit.

Pre-Authorization of Medical Services

The Act and Rules provide that health care providers are required to obtain "preauthorization" of certain medical procedures (e.g., psychiatric care and non-emergency hospitalizations) from workers' compensation insurance carriers prior to such procedures being performed. Preauthorization savings represent the avoidance of expenses related to unreasonable or unnecessary procedures prior to a treatment or service being provided and billed. Since a treatment or service was not authorized and no billing was received, the savings reported are cost-avoidance estimates provided by the Office's cost containment vendor.

Peer Reviews and Required Medical Exams

The Office adjusters have continued the use of Act and Rule-authorized Peer Reviews of medical services and pharmaceuticals and Required Medical Exams of injured workers' as an additional medical cost control strategy. Peer Reviews and Required Medical Exams are conducted to verify the medical necessity and reasonableness of prescribed pharmaceuticals and treatments, to determine whether such prescriptions and treatments are related to compensable injuries, to ensure that the injured employee receives quality medical care, and to avoid the costs of unreasonable or unnecessary medical treatment. Use of these services has been emphasized by the Office and the services have significantly enhanced the Office's medical cost containment strategies. Unnecessary and unrelated medical services that were previously paid are now more timely identified and audits can be conducted with the benefit of these medical opinions. The opinions obtained enable the Office to successfully defend determinations it has made through the dispute resolution process. The Office believes the benefits obtained as a result of these opinions provide more appropriate care to injured workers while delivering savings in excess of the cost of such reviews.

Preferred Provider Organizations/Pharmacy Benefit Management

Through the cost containment contract, the Office and the cost containment vendor initiated a passive pharmaceutical preferred provider in May 2000. The pharmacy benefits manager (PBM) provides a prescription card to all workers' compensation claimants who are prescribed medications. When the card is presented at any participating pharmacy, the Office receives a discount below the Pharmaceutical Fee Guideline. Participation in this program is entirely voluntary for injured workers. However, the Office realized significant savings from this voluntary program.

The cost containment vendor also utilized a Preferred Provider Organization (PPO), an independent network of physicians available to treat injured workers for negotiated fees. The difference between non-PPO charges and the PPO negotiated fees represent savings to the Office. Participation in this program is also voluntary for injured workers. In contrast with the PBM implementation, the Office did not realize satisfactory savings from the PPO program as implemented.

Medical Case Management

Medical Case Management involves the use of a certified medical case manager to serve as a liaison between the injured employee, the employee's healthcare provider, and the Office. Savings from medical case management are derived from two sources: decreased medical expenses due to the avoidance of unnecessary or prolonged medical treatment; and decreased income benefit payments in the future.

Case management is considered within the workers' compensation insurance industry to be an effective method of reducing claims costs. The Office's cost containment contract through fiscal year 2004 included 1,000 hours per year of medical case management services. The Claims Operations staff intensified its case management efforts through increased adjuster awareness of the benefits of this service and the importance of early case management intervention. However, the 1,000 hours of case management services provided in the cost containment contract was not sufficient to meet the Office's caseload needs.

Review of Impairment Ratings

Cost savings may also be realized from the review and dispute of incorrect impairment ratings. Under the Act, injured employees may be entitled to impairment income benefits (IIBs), which are determined by a whole body impairment rating assigned to the injured employee by the treating physician. Both the injured employee and the insurance carrier have a right to dispute an impairment rating. Accordingly, a review of questionable impairment ratings is imperative to containing the costs of indemnity benefits to injured state employees. The Office utilizes an established review process for impairment ratings involving reviews by the assigned claims adjuster, in-house medical staff, and/or an external independent physician. In addition, the Act and Rules make provision for an independent review of impairment ratings by a TWCC-assigned Designated Doctor. These procedures help ensure the accuracy of the assigned rating and, in many cases, decreased impairment income benefits are paid as a result of the differences between the original impairment ratings and the designated doctor ratings.

Fraud Detection and Investigation

The Office employs two full-time staff members to investigate potential fraud and abuse as a part of the Office's workers' compensation fraud detection program. The Office

investigates both claimant and medical provider fraud. Additionally, the Office formed an internal committee consisting of representatives from Claims Operations, Medical Cost Containment, Information Resources, and investigative staff in an effort to more readily identify trends and potential abuse and/or fraud by parties in the system.

Subrogation Recoveries

Subrogation is the legal assignment of the rights of the insured to recover the amounts of a loss from one legally liable for the loss to an insurer following payment of a loss. The Office's subrogation program focuses on the early identification of claims involving third party liability, facilitates timely resolution of these cases, and maximizes recovery of claims payments from third parties.

The amount the Office collects through subrogation is limited to the amount that has been paid in workers' compensation benefits on the case in question and the amount available through third party insurance policies or other payment sources. Subrogation reduces costs in two distinct ways. The first is the direct reimbursement to Office of a portion of monies paid by a third party to satisfy the Office's lien. The second is the avoidance of future expense in an amount equal to the injured workers' direct recovery, as the Act defines such recoveries as advances against future benefits. The Office seeks to identify all workers' compensation claims with subrogation potential in order to maximize subrogation recoveries from third parties for the benefit of the State.

Claims Operations

Claims Operations is responsible for the adjusting of workers' compensation claims, including the evaluation of the compensability, extent, and medical treatment of injuries sustained by state employees. The attraction and retention of an adequate number of experienced staff to evaluate and monitor claims continues to be significant challenge for the Office. The employee turnover rate continues to exceed the state average and claims loads exceed industry standards, negatively impacting the true potential for savings in Claims Operations.

To emphasize cost containment, the Office formed a Medical Management Review Team to target claims which require additional scrutiny because of significant or ongoing medical activity. The Office also implemented improved criteria for case closures, refined practices for the effective maintenance of claims, and emphasized ongoing professional training of claims staff.

Risk Assessment and Loss Prevention Services

The accident that does not occur has the least direct cost to the state. While not reported as savings in this report, cost avoidance is inherent as a result of the decline of the number of injuries (both in absolute and relative terms) through fiscal year 2004. The

Office's risk management specialists serve as consultants to state agencies to assist in conducting risk assessments and developing and implementing risk management programs to prevent and control losses. During risk management program reviews and on-site consultations, particular emphasis is placed on policies, programs, and procedures that promote workplace safety and employee wellness, accident prevention, and loss control.



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